

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of Application of
CALIFORNIA-AMERICAN WATER SERVICE
COMPANY (U 210 W) for an order authorizing it
to increase its rates for water service in its
Los Angeles District to increase revenues by
\$2,020,466 or 10.88% in the year 2007; \$634,659 or
3.08% in the year 2008; and \$666,422 or 3.14% in
the year 2009.

Application 06-01-005
(Filed January 9, 2006)

ASSIGNED COMMISSIONER'S SCOPING MEMO AND RULING

1. Summary

This scoping memo decides the scope of issues to be heard in this proceeding based on the issues raised in (1) California-American Water Company's (Cal-Am) initial application filed on January 9, 2006 and its May 3, 2006 filing to withdraw Special Request #3 and revise its rate design proposal, (2) the January 30, 2006 protest to the application filed by the Division of Ratepayer Advocates (DRA), (3) the prehearing conferences (PHCs) held on February 16, 2006 and May 12, 2006, and (4) the public participation hearings (PPHs) held in San Marino, Duarte, and Inglewood on April 5 and 6, 2006.

In accordance with Rule 6(a)(3) and Rule 6.3 of the Commission's Rules of Practice and Procedure (Rules), this scoping memo also designates the category of this proceeding, the need for hearing, the principal hearing officer, and sets forth the procedural schedule. Pursuant to Rule 6.4, this scoping memo is appealable only as to category of the proceeding.

2. Background

Cal-Am's general rate case (GRC) application for its Los Angeles district is made pursuant to the new three-year GRC cycle requirements for Class A water utilities set forth in Public Utilities Code Section 455.2 and adopted by the Commission under its new rate case plan (RCP) in Decision (D.) 04-06-018.¹ The RCP provides for each utility to file a GRC application every three years, complete with specified documentation and supporting material, and for the Commission to process each application under a 12-month procedural schedule.

A protest to Cal-Am's application was timely filed by DRA on January 30, 2006. At the February 16, 2006 PHC, a preliminary procedural schedule was set that would process the GRC application within 12 months. Based on a request by the Administrative Law Judge (ALJ) at the PHC, Cal-Am filed a response providing additional information concerning its proposed low income assistance program on February 27, 2006.

Petitions to intervene were filed on March 6 by the City of San Marino, March 13 by the City of Duarte, and March 28 by the Utility Workers Union of America, AFL-CIO; all petitions have been granted.

The Commission held three PPHs in San Marino, Duarte, and Inglewood on April 5 and 6, 2006. At the PPHs, Cal-Am stated that it intended to withdraw its rate design proposal and file a new conservation rate design it had not yet developed. At the PPH for the Duarte subsystem, the Duarte city attorney stated he preferred that Cal-Am modify its rate design by a formal amendment that triggers new time frames in and of itself. Cal-Am expressed concern that it did

¹ Class A utilities are investor-owned water utilities with greater than 10,000 service connections. All Section references are to the Public Utilities Code.

not want to restart the process as that could delay a final decision in the case; Cal-Am instead proposed bifurcating the proceeding to consider the rate design under a later schedule. At the PPH for the Baldwin Hills subsystem, public citizens expressed concern that Cal-Am had not provided them adequate notice and information. The assigned ALJ requested Cal-Am provides the specifics of its proposal, and its justification for using this procedure, in a filing by April 10, 2006.

On April 10, 2006, Cal-Am filed a motion to bifurcate the proceeding to consider rate design on a separate schedule. After review of this filing and the notice Cal-Am provided its customers, the assigned ALJ issued a ruling on April 13, 2006. This ruling:

- Required Cal-Am to address by supplemental filing on April 17 whether it had met the customer notice requirements of Section 454(a) and Rule 24;
- Shortened response time to Cal-Am's motion and supplemental filing from April 25 to April 21, 2006; and
- Requested parties in their responses, including Cal-Am, to address whether shifting the entire proceeding to Cal-Am's newly proposed schedule would be more efficient and address due process concerns raised at the PPHs.

In response to this ruling, Cal-Am filed its supplemental pleading on April 17, Cal-Am and DRA filed responses on April 21, and Cal-Am, after requesting permission to file another round of pleadings, filed a reply on April 25, 2006. On April 25, 2006, the Assigned Commissioner and ALJ issued a ruling finding that (1) Cal-Am's customer notice did not meet the statutory requirements of Section 454(a) and Rule 24, (2) Cal-Am must re-notice its customers before the Commission can proceed to hold any evidentiary hearings

on its application, and (3) setting a PHC on May 12 to discuss a revised procedural schedule. Further, the ruling agreed to Cal-Am filing its revised rate design proposal on May 3 and found it beneficial for DRA to serve its revenue requirement testimony on May 5, 2006.

On May 9, 2006, the City of Inglewood (Inglewood) contacted the Commission's Public Advisor's Office in Los Angeles to inquire why the city was not on the service list for Cal-Am's application as required under Rule 24. The ALJ contacted Cal-Am who stated the utility had failed to originally serve the city in January but that since the April 6 PPH Cal-Am had been informally providing documents to employees of Inglewood. At the ALJ's request, DRA also served its testimony on Inglewood and on May 11 the city attorney sent a facsimile stating Inglewood intended to fully participate in the proceeding and would formally intervene at the May 12 PHC.

At the May 12 PHC, all parties agreed to bifurcate the proceeding to consider revenue requirement issues on the original hearing schedule and to consider on a later schedule rate design as well as Special Request #s 2, 5, and 6; the adopted procedural schedule is memorialized in this ruling. In addition, PPHs were set for May 31 in Inglewood and June 1 in San Marino. Cal-Am stated it had prepared a revised customer notice that had been approved by the Public Advisor and DRA and it would mail this notice by first class postage to customers no later than May 18, 2006.² At the request of the assigned Commissioner's office, Cal-Am stated it would coordinate with all parties to meet the following week for settlement discussions on revenue requirement

² Cal-Am mailed its notice by first class postage on May 17, 2006.

issues. Pursuant to Rule 51.1(b), Cal-Am stated it would also notice an all-party settlement meeting on May 23, 2006.

3. Categorization, Need for Hearings, Ex Parte Rules, and Designation of Principal Hearing Officer

This proceeding has been preliminarily categorized as ratesetting, as that term is defined in Rule 5(c). No party objects to the Commission's preliminary categorization or to our preliminary determination that evidentiary hearings are needed. We affirm the categorization and need for hearings in this scoping memo.³

Pursuant to Rule 6(a)(3), Assigned Commissioner John A. Bohn designates ALJ Christine M. Walwyn as the principal hearing officer.

The Commission's ex parte rules applicable to this proceeding are set forth in Rules 7(c) and 7.1. These ex parte rules apply to all parties of record and, more broadly, to all persons with an interest in any substantive matter; the broad category of individuals subject to our ex parte rules is defined in Section 1701.1(c)(4) and Rule 5(h).

4. Scope of the Proceeding

Issues for hearing in a GRC proceeding are very broad, as this is the comprehensive proceeding that reviews all aspects of a company's operations, utility plant, capital structure, capital budget, customer service, customers' rates and service quality. In addition, Cal-Am's application includes the following special requests:

³ This scoping memo, only as to the category, is appealable under the procedures in Rule 6.4.

Special Request #1: Authorization for an Infrastructure System Replacement Surcharge (ISRS) to recover additional fixed costs associated with capital expenditure investments for replacement or rehabilitation of certain facilities.

Special Request #2: Authorization for a conservation rate design that will reduce the current monthly service surcharge and shift more of the recovery of fixed costs to the volumetric charge.

Special Request #3: Withdrawn, as discussed below.

Special Request #4: Authorization for a low-income surcredit program.

Special Request #5: Authorization for full cost balancing accounts for purchased water and purchased power.

Special Request #6: Authorization for a conservation memorandum account.

Special Request #7: Authorization for a memorandum account to track the actual tax effects of the American Jobs Creation Act.

As the proceeding moves forward, parties should develop the record with an eye toward explaining how the positions they take: (a) promote both reasonable rates and short- and long-term utility viability; (b) affect the utility's ability to ensure water quality in the short and long term; (c) increase customer and utility conservation incentives; (d) affect infrastructure development and investment; (e) moderate rate impacts on low-income customers; and (f) make the Commission's regulatory and decision-making processes more timely and efficient.

In its April 25, 2006 comments, Cal-Am states that it reached agreement with DRA, the City of Duarte (Duarte), and the City of San Marino (San Marino) that it would be reasonable to bifurcate this proceeding into a revenue

requirement portion and a rate design portion, with the rate design portion addressing Cal-Am's forthcoming conservation rate design and Special Request #s 2, 5, and 6.⁴ The same parties agreed to a proposed procedural schedule that would have a final Commission decision on the rate design portion in March 2007 and also agreed that the rate design adopted by the Commission in this proceeding should not be applied retroactive to January 1, 2007, but instead should apply to all bills issued after the final decision on rate design.⁵

At the May 12 PHC, bifurcation was discussed and all parties are in agreement. We are persuaded to adopt this proposal, and do so here.

5. Procedural Schedule

After discussion at the May 12 PHC, the following schedule is adopted:

Revenue Requirement Portion of the proceeding:	
Formal Settlement Conference	May 23, 2006
Intervenor direct testimony served ⁶	May 26, 2006
Concurrent rebuttal testimony served	June 5, 2006
Evidentiary Hearings ⁷	June 13-16, 2006

⁴ On May 3, 2006, Cal-Am withdrew its Special Request #3 for consolidated rates across the Los Angeles district and in its place submitted a revised rate design proposal for a three-tiered block rate conservation design.

⁵ Each of the parties also agrees on the clarification that the new rate design should apply to all bills issued after the final decision, not to water service provided after the final decision.

⁶ DRA's direct testimony was served May 5, 2006.

⁷ All evidentiary hearings will be held in the Commission's hearing rooms at the State Office Building, 505 Van Ness Avenue, San Francisco, California.

Opening Briefs filed ⁸	July 21, 2006
Reply Briefs filed	August 4, 2006
Proposed decision issued	November 3, 2006
Final Commission decision	December 2006
Rate Design Portion of Proceeding:	
Early settlement negotiations should occur	Week of August 5th
DRA and intervenors serve direct testimony	September 15, 2006
Concurrent rebuttal testimony served	September 29, 2006
Noticed Settlement Conference	Week of October 10 th
Evidentiary hearings	October 24-25, 2006
Opening briefs filed	November 3, 2006
Reply briefs filed	November 9, 2006
Proposed decision issued	February 9, 2007
Final Commission decision	March 2007

Pursuant to Rule 8(d), parties requesting final oral argument before the Commission must include that request in their opening brief. This proceeding is scheduled to be complete within 18 months of this scoping memo, as required by Section 1701.5.

⁸ Cal-Am should file concurrently with its opening brief a motion for interim rates effective January 1, 2006. In its motion, Cal-Am should specifically address the criteria for interim rates set forth in D.04-06-018. Responses to Cal-Am's motion should be included in reply briefs.

6. Party Status and Service List

The service list for this proceeding is attached to this ruling and any updates will be reflected in the service list on the Commission's website (www.cpuc.ca.gov). The Commission's recently revised service protocols are set forth in Rules 2.3 and 2.3.1; these rules may also be accessed on the Commission's website.

Any person wishing to participate as a full party to the proceeding must make their request by written motion or on the hearing record and make the showing required under Rule 54. Service list additions for the information only or state service categories may be handled by an e-mail to ALJ Walwyn (cmw@cpuc.ca.gov).

Therefore, **IT IS RULED** that:

1. This proceeding is categorized as ratesetting and that categorization is appealable under the procedures set forth in Rule 6.4 of the Commission's "Rules of Practice and Procedure."
2. Evidentiary hearings are required.
3. Administrative Law Judge Christine M. Walwyn is the principal hearing officer.
4. The scope of this proceeding is set forth in Section 4.
5. The rate design portion of this proceeding will be considered on a later schedule due to the revised rate design proposal filed by California-Water Service Company on May 3, 2006. The rate design adopted will not be applied January 1, 2007, but instead should apply to all bills issued after the final decision on rate design. The procedural schedule and process for this proceeding are set forth in Sections 5 and 6.

Dated May 22, 2006, at San Francisco, California.

/s/ JOHN A. BOHN

John A. Bohn
Assigned Commissioner

ATTACHMENT

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(END OF ATTACHMENT)

CERTIFICATE OF SERVICE

I certify that I have by mail this day served a true copy of the original attached Assigned Commissioner's Scoping Memo and Ruling on all parties of record in this proceeding or their attorneys of record.

Dated May 22, 2006, at San Francisco, California.

/s/ FANNIE SID
Fannie Sid

N O T I C E

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.

The Commission's policy is to schedule hearings (meetings, workshops, etc.) in locations that are accessible to people with disabilities. To verify that a particular location is accessible, call: Calendar Clerk (415) 703-1203.

If specialized accommodations for the disabled are needed, e.g., sign language interpreters, those making the arrangements must call the Public Advisor at (415) 703-2074, TTY 1-866-836-7825 or (415) 703-5282 at least three working days in advance of the event.